BILL # SB 1338

TITLE: uniform secondary property tax assessments

SPONSOR: Harper

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Beginning on July 1, 2004, this bill would modify the assessment ratios for property subject to secondary property taxes. The net assessed valuation (NAV) of such property (often referred to as unlimited or secondary NAV) is obtained by multiplying the property's full cash value by its assessment ratio (AR), as prescribed in statutes. Secondary property taxes are levied to pay for bonded indebtedness, voter-approved budget overrides, and special districts, such as fire and sanitary districts.

Under current law, the assessment ratio (by property class) is the same for both primary and secondary NAV. This bill would reduce the assessment ratio for Class 1 property (subject to secondary taxes) from 25% to 20%. The assessment ratios for all other property classes would be 10%. These changes would only apply to obligations incurred from July 1, 2004. The table below summarizes the AR changes under SB 1338.

Class	Property Type	AR Under Current Law	AR Under SB 1338	Percent Change
1	Commercial, Industrial, Utilities, Mines	25%	20%	(20)%
2	Agricultural, Vacant Land	16%	10%	(37.5)%
3	Owner-occupied Residential	10%	10%	0%
4	Rental Residential	10%	10%	0%
5	Railroad, Private Car, Airline Flight	20%	10%	(50)%
6	Residential Historic, Enterprise Zones	5%	10%	100%
7	Commercial Historic	1%	10%	900%
8	Rental Residential Historic	1%	10%	900%
9	Possessory Interest	1%	10%	900%

Estimated Impact

This bill would have no impact on the state General Fund. Secondary NAV (unlike primary NAV) is not included in the statutory funding formula for equalization assistance to schools. However, SB 1338 is likely to have an impact on local taxing jurisdictions, which will be explained in more detail in the *Local Government Impact* section below.

Local Government Impact

The fiscal impact of this proposal on political subdivisions is difficult to project for several reasons. First, the proposed assessment ratios would generally shift the tax burden from commercial, industrial, and agricultural property to other classes of property. This tax shift (especially from business to residential property) could potentially influence voters' willingness to approve future debt service and overrides. However, the extent to which such behavioral changes would occur is difficult to predict.

Second, apart from the behavioral aspects, the magnitude of tax shifts would vary considerably among different jurisdictions, such as counties, cities, community college and school districts. For example, according to the Arizona Tax Research Foundation's annual publication *Property Tax Rates and Assessed Values*, the following 5 counties in Arizona levied secondary property taxes in tax year 2003: Apache, Greenlee, Maricopa, Pima, and Santa Cruz.

However, to quantify the size of tax shifts within these counties is difficult since SB 1338 only applies to new debt incurred after June 30, 2004. Theoretically, tax shifts would be larger in counties with a greater share of Class 1 property since more of their tax base would be lost.

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